

EXHIBIT "B"  
SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF ALL LANDS IN THE  
HACKBERRY HILLS UNIT AREA, EDDY COUNTY, NEW MEXICO

Tract No.	Description of Land	Number of Acres	Serial No. & Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty or Production Payment and Percentage	Working Interest and Percentage
FEDERAL LANDS							
T-21-S, R-25-E, NMPM							
1	Sec. 25: SE/4 & E/2 SW/4	240.00	LC-068793-A 4-1-49	U.S.A. - 12-1/2%	Gulf Oil Corporation	3% Mary D. Middleton	Gulf - 100%
2	Sec. 25: W/2 SW/4	80.00	LC-068865 11-1-49	U.S.A. - 12-1/2%	The Superior Oil Company	1 1/4% David B. Miller 1/2 of 1% Ralph E. Smith	Superior - 100%
2-A	Sec. 26: NE/4 SE/4	40.00	LC-068865-A 11-1-49	U.S.A. - 12-1/2%	Carper Drilling Company, Inc.	1/2 of 1% Ralph E. Smith 4 1/2% Superior Oil Co. 1/2 of 1% Tracy Clark 1/2 of 1% Robert E. Boling	Carper - 100%
3	Sec. 26: W/2 SW/4 Sec. 27: SE/4 Sec. 35: All	880.00	NM-029128 6-1-57	U.S.A. - 12-1/2%	Union Oil Company of California	1/2 of 1% George Turner \$500.00 P/A out of 3% to Ethel A. Harris	Union - 100%
4	Sec. 34: NE/4	160.00	LC-067593 4-1-51	U.S.A. - 12-1/2%	Gulf Oil Corporation	\$750.00 P/A out of 3% to Mabel E. Todhunter	Gulf - 100%
5	Sec. 34: SE/4	160.00	NM-0112134 9-1-60	U.S.A. - 12-1/2%	Gulf Oil Corporation	5% Pete Ortega	Gulf - 100%
T-21S, R-26-E, NMPM							
6	Sec. 32: SW/4 NW/4, NW/4 SW/4	80.00	NM-025188 9-1-56	U.S.A. - 12-1/2%	George E. Conley	None	George E. Conley - 100%
T-22-S, R-26-E, NMPM							
7	Sec. 5: Lots 1,2,4, S/2 NE/4, SW/4 NW/4, SE/4 SE/4 Sec. 8: E/2 NE/4 Sec. 9: SW/4 NW/4, N/2 SE/4 Sec.17: E/2	801.01	LC-067965 4-1-52	U.S.A. - 12-1/2%	Gulf Oil Corporation	\$500.00 P/A out of 3% to Mary Didlake	Gulf - 100%
8	Sec. 6: Lots 1,2, S/2 NE/4	160.57	NM-077442 6-1-60	U.S.A. - 12-1/2%	Gulf Oil Corporation	4% Anna Z. Baetz	Gulf - 100%
9	Sec. 6: Lots 3,4,5,6,7,SE/4 NW/4, E/2 SW/4, N/2 SE/4	397.91	NM-0870-C 11-1-51	U.S.A. - 12-1/2%	Gulf Oil Corporation	3% John D. Meredith	Gulf - 100%

Tract No.	Description of Land	Number of Acres	Serial No. & Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty or Production Payment and Percentage	Working Interest and Percentage
FEDERAL LANDS (Continued)							
T-22-S, R-25-E, NMPM							
10	Sec. 1: Lots 1,2,3,4, S/2 N/2, N/2 S/2	481.60	NM-047423 11-1-59	U.S.A. - 12-1/2%	Honolulu Oil Corporation	None	Honolulu - 100%
11	Sec. 1: SW/4 SE/4, SW/4 SW/4 Sec.12: SE/4 NW/4	239.33	NM-02500 10-1-50	U.S.A. - 12-1/2%	The Superior Oil Company	1½% David B. Miller ½ of 1% Ralph E. Smith	Superior - 100%
T-22-S, R-26-E, NMPM							
Sec. 7: NW/4 NW/4, SE/4 NW/4, NE/4 SW/4							
T-22-S, R-25-E, NMPM							
11-A	Sec. 1: SE/4 SE/4	40.00	NM-02500-A 10-1-50	U.S.A. - 12-1/2%	W. G. Ross	1½% David B. Miller ½ of 1% Ralph E. Smith 1½% Superior Oil Co.	W. G. Ross - 100%
12	Sec. 3: Lots 1,2, S/2 NE/4, N/2 SE/4, SW/4 SE/4	281.08	LC-064548-A 2-1-51	U.S.A. - 12-1/2%	Northern Natural Gas Prod. Co.	3% Grady Southworth	Northern Natural - 100%
12-A	Sec. 3: SE/4 SE/4	40.00	LC-064548-B 2-1-51	U.S.A. - 12-1/2%	Gulf Oil Corporation	3% Grady Southworth	Gulf - 100%
13	Sec.11: W/2 NE/4	80.00	LC-064528-B 2-1-51	U.S.A. - 12-1/2%	Northern Natural Gas Prod. Co.	3% Roy L. Flood	Northern Natural - 100%
14	Sec.11: SE/4 NE/4	40.00	NM-077460 6-1-60	U.S.A. - 12-1/2%	Pure Oil Company	None	Pure - 100%
15	Sec.12: N/2 NE/4, S/2 SE/4, NE/4 SE/4	520.00	LC-064528-A 2-1-51	U.S.A. - 12-1/2%	Pure Oil Company	None	Pure - 100%
T-22-S, R-26-E, NMPM							
Sec. 7: S/2 NE/4, N/2 SE/4 Sec.18: NE/4							
T-22-S, R-25-E, NMPM							
15-A	Sec.12: SW/4 NW/4	40.00	LC-064528-G 2-1-51	U.S.A. - 12-1/2%	Tennessee Gas & Oil Company	None	Tennessee - 100%

Tract No.	Description of Land	Number of Acres	Serial No. & Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty or Production Payment and Percentage	
							Working Interest and Percentage
FEDERAL LANDS (Continued)							
T-22-S, R-25-E, NMPM							
16	Sec.12: SW/4 NE/4	40.00	LC-065532 5-1-51	U.S.A. - 12-1/2%	Gulf Oil Corporation	3% Josephine Rodke	Gulf - 100%
T-22-S, R-26-E, NMPM							
17	Sec. 8: SW/4 NW/4, NW/4 SW/4 Sec.17: NW/4, N/2 SW/4, SE/4 SW/4	360.00	LC-064492 2-1-51	U.S.A. - 12-1/2%	Gulf Oil Corporation	\$500.00 P/A out of 3% Emma T. Russell	Gulf - 100%
17-A	Sec.17: SW/4 SW/4	40.00	LC-064492-A 2-1-51	U.S.A. - 12-1/2%	Northern Natural Gas Prod. Co.	\$500.00 P/A out of 3% Emma T. Russell	Northern Natural - 100%
18	Sec. 9: SE/4 NW/4, E/2 SW/4	120.00	LC-067596 3-1-51	U.S.A. - 12-1/2%	Tennessee Gas & Oil Company	None	Tennessee - 100%
18-A	Sec. 9: SW/4 SW/4	40.00	LC-067596-A 3-1-51	U.S.A. - 12-1/2%	Pure Oil Company	None	Pure - 100%
19	Sec. 9: S/2 SE/4 Sec.10: SW/4 Sec.15: N/2, N/2 SE/4, NE/4 SW/4 Sec.21: S/2 N/2, NE/4 NW/4, NW/4 NE/4, SE/4 Sec.22: All Sec.23: N/2 NW/4	1,800.00	LC-064490 5-1-52	U.S.A. - 12-1/2%	Gulf Oil Corporation	\$500.00 P/A out of 3% Buck Russell	Gulf - 100%
20	Sec.23: S/2 NW/4, NW/4 SE/4, SW/4 Sec.27: S/2 SE/4	360.00	LC-064489-A 3-1-52	U.S.A. - 12-1/2%	Tidewater Oil Co. Texaco Seaboard Inc.	3% Dan Ella Miller	Tidewater - 50% Texaco- 50% Seaboard - 100%
21	Sec.27: N/2 NW/4	80.00	LC-068329-A 5-1-52	U.S.A. - 12-1/2%	E. A. Hanson	None	E.A.Hanson - 100%
22	Sec.27: S/2 NW/4	80.00	NW-034358 11-1-58	U.S.A. - 12-1/2%	Gulf Oil Corporation	3% Sam Glasser	Gulf - 100%
23	Sec.26: S/2 S/2	160.00	LC-069954 6-1-51	U.S.A. - 12-1/2%	Gulf Oil Corporation	5% H. C. Roberts	Gulf - 100%
FEDERAL LAND TOTAL		7,841.50	(56.33%)				

Tract No.	Description of Land	Number of		Serial No. & Date of Lease	Basic Royalty and Percentage		Lessee of Record	Overriding Royalty or Production Payment and Percentage		Working Interest and Percentage
		Acres								

STATE LANDS

T-21-S, R-25-E, NMPM

24	Sec.26: NW/4 SE/4, NE/4 SW/4	80.00	E-8998 3-10-53	State - 12-1/2%	Shell Oil Company	None	Shell -	100%
25	Sec.26: SE/4 SE/4	40.00	E-8778 1-18-55	State - 12-1/2%	Humble Oil & Refining Company	None	Humble -	100%
26	Sec.26: SW/4 SE/4	121.34	OG-4911 12-16-58	State - 12-1/2%	Carper Drilling Company, Inc.	$\frac{1}{2}$ of 1% Tracy Clark $\frac{1}{2}$ of 1% Robert E. Boling	Carper -	100%

T-22-S, R-25-E, NMPM

Sec. 2: Lots 1, 4

T-21-S, R-25-E, NMPM

27	Sec.26: SE/4 SW/4 Sec.36: NE/4 NW/4, SE/4 NE/4, NE/4 SW/4, SW/4 SE/4	958.80	E-5679 10-10-51	State - 12-1/2%	Gulf Oil Corporation	None	Gulf -	100%
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T-22-S, R-25-E, NMPM

Sec.12: SE/4 NE/4

T-22-S, R-26-E, NMPM

Sec. 5:	Lot 3, NW/4 SE/4
Sec. 6:	SW/4 SE/4
Sec. 7:	Lots 2,4, NW/4 NE/4, NE/4 NW/4, SE/4 SE/4
Sec. 8:	S/2 SE/4, SW/4 SW/4
Sec. 9:	NE/4 NW/4
Sec.16:	SE/4 NE/4, SE/4 NW/4, N/2 SW/4
Sec.21:	NE/4 NE/4, NW/4 NW/4

T-21-S, R-25-E, NMPM

28	Sec.36: NW/4 NW/4, NW/4 NE/4, SW/4 SW/4, SE/4 SE/4	440.00	OG-2020 2-18-58	State - 12-1/2%	Phillips Petroleum Company	None	Phillips -	100%
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T-22-S, R-26-E, NMPM

Sec. 9:	NW/4 NW/4, NW/4 SW/4
Sec.14:	W/2 SW/4
Sec.15:	NW/4 SW/4, S/2 SW/4

Tract No.	Description of Land	Number of Acres	Serial No. & Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty or Production Payment and Percentage	Working Interest and Percentage
STATE LANDS (Continued)							
<u>T-21-S, R-25-E, NMPM</u>							
29	Sec.36: NE/4 NE/4, SW/4 NE/4, SE/4 SW/4	160.00	E-10085 5-15-56	State - 12-1/2%	Phillips Petroleum Company	None	Phillips - 100%
<u>T-21-S, R-26-E, NMPM</u>							
Sec.31: SE/4 NW/4							
<u>T-21-S, R-25-E, NMPM</u>							
30	Sec.36: S/2 NW/4, NW/4 SW/4, N/2 SE/4	479.14	K-873 10-18-60	State - 12-1/2%	Gulf Oil Corporation	None	Gulf - 100%
<u>T-21-S, R-26-E, NMPM</u>							
Sec.31: Lots 1,2, NE/4 NW/4, N/2 NE/4, SE/4 NE/4, SE/4 SE/4							
31	Sec.31: Lots 3,4,E/2 SW/4, W/2 SE/4, SW/4 NE/4, NE/4 SE/4	319.04	E-7912 2-16-54	State - 12-1/2%	The Ohio Oil Company	None	Ohio - 100%
32	Sec.32: N/2 NW/4, SE/4 NW/4, NE/4 SW/4, S/2 SW/4	240.00	E-7913 2-16-54	State - 12-1/2%	The Ohio Oil Company	None	Ohio - 100%
<u>T-22-S, R-26-E, NMPM</u>							
33	Sec. 5: NE/4 SE/4	240.00	E-6435 8-11-52	State - 12-1/2%	Sinclair Oil & Gas Company	None	Sinclair - 100%
<u>T-22-S, R-25-E, NMPM</u>							
34	Sec.12: NW/4 SE/4	439.22	OG-1231 8-20-57	State - 12-1/2%	Skelly Oil Co.	None	Skelly - 100%
<u>T-22-S, R-26-E, NMPM</u>							
Sec. 5: SW/4 SE/4, SE/4 SW/4							
Sec. 6: SE/4 SE/4							
Sec. 7: Lot 3, SE/4 SW/4, SW/4 SE/4							
Sec. 8: SE/4 NW/4, SE/4 SW/4, N/2 SE/4							

Tract No.	Description of Land	Number of Acres	Serial No. & Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty or Production Payment and Percentage	Working Interest and Percentage
STATE LANDS (Continued)							
T-22-S, R-25-E, NMPM							
35	Sec. 2: Lots 2,3, S/2 N/2, S/2	681.34	E-10088 5-15-56	State - 12-1/2%	Sunray Mid-Continent Oil Co.	None	Sunray Mid-Continent - 100%
T-22-S, R-26-E, NMPM							
Sec. 5: SE/4 NW/4, N/2 SW/4							
36	Sec.16: N/2 N/2, SW/4 NW/4 SW/4 NE/4, N/2 SE/4, S/2 S/2	480.00	OG-1526 11-19-57	State - 12-1/2%	Sun Oil Company	None	Sun - 100%
37	Sec.26: N/2 SW/4 Sec.27: N/2 SE/4	160.00	K-675 8-16-60	State - 12-1/2%	Gulf Oil Corporation	None	Gulf - 100%
STATE LAND TOTAL		4,838.88	(34.76%)				
FEE LANDS							
T-22-S, R-25-E, NMPM							
38	Sec. 1: SE/4 SW/4 Sec.12: N/2 NW/4	120.00	6-12-57	F. H. Jones et ux - 12-1/2%	Skelly Oil Co.	None	Skelly - 100%
39	Sec.11: NE/4 NE/4	40.00	12-27-52	F. H. Jones et ux - 12-1/2%	Northern Natural Gas Prod. Co.	None	Northern Natural - 100%
T-22-S, R-26-E, NMPM							
40	Sec. 5: SW/4 SW/4 Sec. 7: NE/4 NE/4 Sec. 8: N/2 NW/4	160.00	7-28-52	Bertha S. Leck Executrix -12-1/2%	Gulf Oil Corporation	None	Gulf - 100%
41	Sec.14: NE/4 SW/4	40.00	7-14-60	E. P. Klein et ux - 12-1/2%	Gulf Oil Corporation	None	Gulf - 100%
42	Sec.14: SE/4 SW/4	40.00	10-4-60	Virginia Murdock - 12-1/2%	Gulf Oil Corporation	None	Gulf - 100%
43	Sec.23: N/2 NE/4, SW/4 NE/4	120.00	1- -61	The A.T.& S.F.Ry. Co. - 25%	Texaco Inc.	None	Texaco - 100%

UNIT OPERATING AGREEMENT  
FOR THE HACKBERRY HILLS UNIT AREA  
EDDY COUNTY, NEW MEXICO

BEFORE EXAMINER NUTTER  
CONSERVATION COMMISSION  
EXHIBIT NO. 3  
CASE NO. 2181  
26<sup>th</sup> day of January

THIS AGREEMENT, made and entered into as of the 26<sup>th</sup> day of January, 1961, by and between GULF OIL CORPORATION, a Pennsylvania corporation, with offices in Roswell, New Mexico, hereinafter referred to as "Unit Operator", and such other working interest owners who subscribe to this agreement who have working interests subject to the Unit Agreement for the operation and development of the Hackberry Hills Unit Area, which said parties are hereinafter referred to as "Working Interest Owners" or as "Non-Operators",

W I T N E S S E T H :

WHEREAS, the parties hereto have concurrently herewith as of the date hereof, entered into a certain Unit Agreement for the development and operation of the Hackberry Hills Unit Area, which is hereinafter referred to as "Unit Agreement", embracing lands situated in Eddy County, State of New Mexico, described in Section 1 hereof; and

WHEREAS, Gulf Oil Corporation has been designated as the Unit Operator under the terms of said Unit Agreement and is also a Working Interest Owner under said Unit Agreement and enters into this agreement in both capacities; and

WHEREAS, the undersigned Working Interest Owners have committed certain oil and gas leasehold interests to said Unit Agreement which are to be subject to the terms and conditions thereof; and

WHEREAS, the parties hereto enter into this agreement pursuant to Section 7 of the Unit Agreement;

NOW, THEREFORE, it is mutually agreed between the parties hereto as follows:

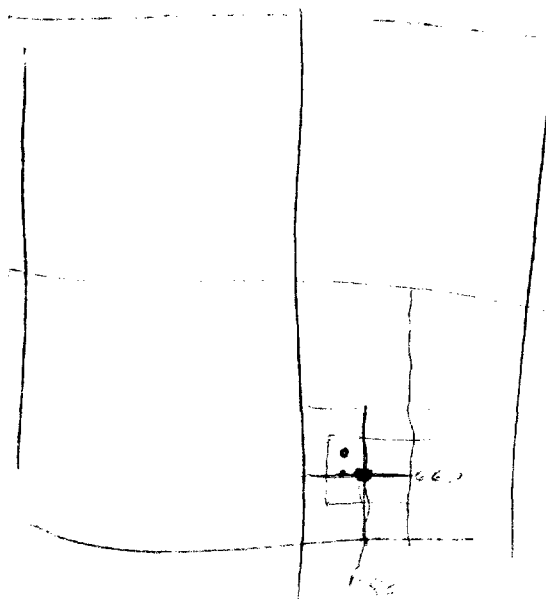
1. DESCRIPTION OF UNIT AREA: The term "Unit Area" as used herein shall mean and include the following described land:

T. 21 S., R. 25 E., N.M.P.M.

Section 25: S/2  
Section 26: S/2  
Section 27: SE/4  
Section 34: E/2  
Section 35: All  
Section 36: All

T. 21 S., R. 26 E., N.M.P.M.

Section 31: All  
Section 32: W/2



2310

2130  
1780  
140

T. 22 S., R. 25 E., N.M.P.M.

Section 1: All (irregular)  
Section 2: All (irregular)  
Section 3: E/2 (irregular)  
Section 11: NE/4  
Section 12: N/2 and SE/4

T. 22 S., R. 26 E., N.M.P.M.

Section 5: All (irregular)  
Section 6: All (irregular)  
Section 7: All (irregular)  
Section 8: All  
Section 9: W/2 and SE/4  
Section 10: SW/4  
Section 14: SW/4  
Section 15: All  
Section 16: All  
Section 17: All  
Section 18: NE/4  
Section 21: N/2 and SE/4  
Section 22: All  
Section 23: All  
Section 26: All  
Section 27: N/2 and SE/4

Containing 13,920.38 acres, more or less, Eddy County, New Mexico.

2. UNIT OPERATOR AND EMPLOYEES: Gulf Oil Corporation, a corporation, the party hereto named as Unit Operator of the Unit Area under the provisions of the Unit Agreement, or its duly appointed successor Unit Operator, shall have the exclusive right to develop and operate the Unit Area subject to the provisions of this agreement and the Unit Agreement. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone and their working hours, rates of compensation and all other matters relating to their employment shall be determined solely by Unit Operator.

3. UNIT OPERATOR - DUTIES: Unit Operator shall in the conduct of operations hereunder:

(a) Consult freely with Working Interest Owners concerning unit operations, and keep Working Interest Owners informed of all matters arising during the operations of the Unit Area which Unit Operator, in the exercise of its best judgment, considers important;

(b) Keep full and accurate records of all costs incurred, rentals and royalties paid, and controllable materials and equipment, which records, receipts and vouchers in support thereof shall be available for inspection by authorized representatives of the Working Interest Owners at reasonable intervals during usual business hours, at the office of the Unit Operator;

(c) Permit each of the Working Interest Owners, through its duly authorized representatives, but at its sole risk and expense, to have access to the Unit Area at all times and to the derrick floor of each well drilled or being drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting jointly owned materials, equipment and other property, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area;



(d) Furnish to each of the other parties who make timely written request therefor, copies of Unit Operator's authorization for expenditures or itemizations thereof in excess of Two Thousand Five Hundred (\$2,500.00) Dollars, and copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports and run tickets, and reports of stock on hand at the first of each month, if available, and samples of cores or cuttings taken from wells drilled hereunder, containers therefor to be furnished by the party requesting such samples;

(e) Comply with the terms and conditions of the Unit Agreement and all valid applicable Federal and State laws and regulations;

(f) Keep the land in the Unit Area free from liens and encumbrances occasioned by its operations except such liens as the Working Interest Owners elect to contest, and save only the lien granted the Unit Operator under this agreement.

(g) Operator shall dispose of major items of surplus equipment by soliciting sealed bids therefor from all Working Interest Owners and at least three (3) reputable purchasers of second-hand equipment, thereafter disposing of such surplus equipment to the highest bidder.

4. UNIT OPERATOR - RESTRICTIONS: The Unit Operator shall not do any of the following things without the consent of the Working Interest Owners obtained as herein provided:

(a) Locate, drill, deepen or plug back any well or let any contract therefor, except as otherwise permitted under this agreement. The approval of the drilling, deepening or plugging back of any well shall be construed to mean and include the approval of any reasonably necessary expenditures for the approved operation, including the completing and equipping of such well, and the necessary lines, separators and necessary tankage if a producer, and if a dry hole, the plugging and abandonment thereof, except as otherwise provided herein;

(b) Make any other expenditures in excess of Five Thousand (\$5,000) Dollars for any one single item;

(c) Make any partial relinquishment of the rights of the Unit Operator;

(d) Abandon any well or wells;

(e) Enter into any plans for development of the Unit Area or any participating area or amendment thereof, or any expansion or contraction of the Unit Area or any designation or enlargement of a participating area;

(f) Drill or abandon any injection wells or convert any well into an injection well;

(g) Determine whether to drill a demanded offset well or pay compensatory royalty;

(h) Make any arrangement for repressuring, cycling or pressure maintenance, or approve or disapprove any change in the existing method of operation;

(i) Contest any encumbrance or lien.

In case of blowout, explosion, fire, flood or other sudden emergency, Unit Operator may take such steps and incur such expense as, in its opinion, are required to deal with the emergency and to safeguard life and property; provided that Unit Operator shall, as promptly as reasonably possible, report the emergency to the other parties and shall endeavor to secure any sanction that might otherwise have been required.

Subject to the provisions hereof, Unit Operator shall have full control of the premises subjected hereto and shall conduct and manage the development and operation of unitized lands for the production of unitized substances therefrom for the account of the parties hereto.

5. CONSENT OF WORKING INTEREST OWNERS: In connection with operations conducted by Unit Operator for which consent of Non-Operators is required under this agreement, the Working Interest Owners shall have the right to vote thereon in proportion to their respective participation percentages under this agreement, except that with respect to such operations as are being conducted at the cost of less than all of the Working Interest Owners those Working Interest Owners bearing the cost of such operations shall have the right to vote whenever their consent is required in the proportion that their respective participation percentages under this agreement bear to the total of such percentages of such Working Interest Owners. Except as otherwise specified herein or in the Unit Agreement where unanimity is necessary to authorize expenditures to be charged to the joint account, to surrender or terminate interests, etc., a decision concerning any matter which is concurred in by any four or more of the Working Interest Owners, each owning at least one (1%) per cent and in the aggregate at least seventy (70%) per cent of the total of all Working Interests shall constitute the decision of the Working Interest Owners, which decision shall be binding upon all; provided, however, that should any Working Interest Owner own as much as fifty (50%) per cent but less than one hundred (100%) per cent voting interest, his vote must be supported by the affirmative vote of at least four additional Working Interest Owners; and provided, further, that if any party owns fifty (50%) per cent or more voting interest, but less than one hundred (100%) per cent, the vote of such party shall not serve to defeat or disapprove any matters unless supported by at least two additional Working Interest Owners.

The Working Interest Owners shall meet in regular or special meetings for the

purpose of discussing unit business and of voting on matters in connection therewith, and of exercising any other powers by this agreement or by the Unit Agreement committed to the Working Interest Owners. A special meeting may be called by Operator at any time and shall be called by Operator promptly upon the request of any five (5) Working Interest Owners, or any Working Interest Owner or Owners whose participation percentage totals twenty (20%) per cent or more. Each Working Interest Owner shall designate a representative and an alternate to represent him at such meeting, who shall have such powers as are conferred on him by his principal, which powers shall be sufficiently broad to enable the representative to vote on matters coming before said meeting. Notices of meetings and place of holding same shall be served on such representative by the Unit Operator. The representative of the Unit Operator shall act as Chairman at all meetings. Each Working Interest Owner shall have the right, from time to time, on notice to the Unit Operator, to change the representative or the alternate. It shall be sufficient for the Unit Operator to poll all of the affected Working Interest Owners on all such matters without calling a meeting and any vote so taken pursuant to such poll shall be as binding on the Working Interest Owners as if done at a regular or special meeting at which a quorum was present. Unit Operator shall advise all Working Interest Owners the results of any poll so taken.

6. UNIT OPERATOR - LIABILITIES: In the conduct of operations hereunder Unit Operator shall be obligated to use only the care and diligence customarily exercised by a prudent operator in the area in which said lands are located, and Unit Operator shall not be liable for the result of any error of judgment or for the loss of or damage to any joint property not resulting from the gross negligence or willful misconduct of Unit Operator or its employees. Unit Operator shall not be responsible for the neglect or default of any drilling contractor or other contractor engaged by Unit Operator in operations hereunder.

7. ALLOCATION OF UNITIZED SUBSTANCES: Upon completion of a well capable of producing unitized substances in paying quantities, a participating area or areas shall be designated as provided by Section 11 of the Unit Agreement. For the purpose of determining and paying or delivering in kind all royalties, overriding royalties, and obligations payable out of production due on account of the unitized substances produced from such participating area, all unitized substances produced and saved from each participating area, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes or for repressuring or recycling in accordance with an approved plan of development, or unavoidably lost, shall be allocated on an acreage basis to the

respective tracts of unitized land within the participating area established for such production, in accordance with Section 12 of the Unit Agreement. Unit Operator, pursuant to properly executed division orders or otherwise, shall first pay out of the unitized substances so allocated, all royalties payable thereon which are reserved to lessor in the lease or leases covering the land to which such allocation is made. Each such payment shall be made for and on behalf of the Working Interest Owner or Owners of the committed land covered by the lease under which the payment is made; however, Operator shall not be liable as a result of any error or mistake made in good faith in connection with any such payment. If the royalties required under any such lease are in excess of one-eighth ( $1/8$ ) of the oil or gas produced and saved from or allocated to the land covered thereby, that portion of such royalties in excess of one-eighth ( $1/8$ ) of such production shall be charged to and borne by the Working Interest Owner or Owners of the committed land covered by such lease. In addition, each Working Interest Owner shall bear and pay all overriding royalties and obligations payable out of production other than the usual one-eighth ( $1/8$ ) royalty which are chargeable against production from or allocated to land committed by such Working Interest Owner.

Regardless of such allocation for the purposes mentioned above, seven-eighths ( $7/8$ ) of all unitized substances produced and saved shall be apportioned among the Working Interest Owners in proportion to their respective working interests on an acreage basis in all unitized acreage within the Unit Area. The percentage of unitized substances so allocated to each Working Interest Owner shall be the participation percentage of such owner under this agreement as to costs and benefits as well as unitized substances.

The participation percentages in unitized substances, benefits, and costs so established among the Working Interest Owners as shown in Exhibit "D" hereof shall remain fixed regardless of any contraction of the Unit Area, but shall be revised upon commitment of any uncommitted acreage within the Unit Area, upon expansion of the Unit Area, upon loss or failure of title to any tract within the Unit Area, upon transfer of title to working interests subject to this agreement, or as provided in Section 18 upon assignment of leases in lieu of rental payments or loss of a lease for failure to pay rental. Each such revision shall result in the then Working Interest Owners having participation percentages in proportion to their then respective working interests on an acreage basis in all unitized acreage within the Unit Area except that the acreage once committed by a Working Interest Owner shall not be reduced for purposes of determining participation percentages solely as a result of any contraction of the Unit Area.

8. COST OF OPERATIONS AND PRIORITY OF UNIT AGREEMENT: The actual cost of the Unit Operator of performing its obligations as Unit Operator hereunder shall be apportioned among the Working Interest Owners in proportion to their participation percentages under this agreement and shall be paid by the several Working Interest Owners as hereinafter provided. The cost of each operation not participated in by all Working Interest Owners shall be separately kept and charged to the Working Interest Owners affected in the proportions required by other applicable provisions of this agreement or in such other manner as such owners may agree. All materials, equipment and other property, whether real or personal, charged as a part of the cost of operations hereunder shall be owned by the Working Interest Owners in the same proportion that they were charged therefor. All such costs, expenses, credits and related matters and the method of handling the accounting with respect thereto shall be in accordance with the provisions of the Accounting Procedure attached hereto, made a part hereof and marked Exhibit "C".

In the event of any conflict between the provisions contained either in the body of this instrument or in the Unit Agreement or in the Accounting Procedure, the provisions of the Unit Agreement shall govern to the extent of such conflict. In the event of any conflict between the provisions contained in the body of this instrument and those contained in the Accounting Procedure, the provisions in the body of this instrument shall govern. The term "Operator" as used in Exhibit "C" shall be deemed to refer to the Unit Operator, and the term "Non-Operators" as used in Exhibit "C" shall be deemed to refer to the Working Interest Owners herein.

9. OPERATOR'S LIEN: Unit Operator is hereby granted a prior lien on the rights and interest of each Working Interest Owner in the Unit Area and the unitized substances allocated to each such Working Interest Owner, and the material and equipment thereon, to secure the payment of its proportionate part of the said costs and expenses. Should any Working Interest Owner fail to pay its proportionate part of said costs and expenses within thirty (30) days after being billed therefor as provided in the referred to Accounting Procedure, Exhibit "C", Unit Operator shall have the right at its option at any time thereafter, such default continuing, to foreclose said lien on the respective interests of such Working Interest Owners. In lieu of or in addition to such remedy, the parties hereto agree that in the event of default, except in cases of a bona fide dispute, the Unit Operator may notify the purchaser of the defaulting party's share of unitized substances (the purchaser not to be bound by the provisions hereof unless so notified) and such purchaser shall, without liability to the defaulting party, pay all proceeds accruing on account thereof to Unit Operator until said obligation is extin-

guished. In lieu of or in addition to the remedy above specified for such default, Unit Operator may have any other remedy afforded by law or equity against the defaulting party for such default.

Likewise, Non-Operators are hereby granted a prior lien on the rights and interests of the Unit Operator as a Working Interest Owner in the Unit Area and unitized substances and upon the interest of the Unit Operator in all materials and equipment to secure the payment of any amounts which may become due and owing from Unit Operator to any of the Non-Operators, which lien shall be subject to all of the terms and conditions provided for in the preceding paragraph.

10. ADVANCES: Unit Operator, at its election, may require each Working Interest Owner hereto to advance its respective portion of development costs hereunder in accordance with an estimate by Unit Operator to be made not less than fifteen (15) days in advance of the month in which the costs and expenses are to be incurred. This right may be exercised only by submission to each Working Interest Owner of an itemized statement of such estimated costs together with an invoice for its share thereof. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of six (6%) per cent per annum from the date of expenditure until paid. Adjustment between estimates and actual costs shall be made by the Unit Operator at the close of each calendar month and the accounts of the Working Interest Owners adjusted accordingly.

11. TAXES: Unit Operator shall render for ad valorem taxes all jointly owned personal property acquired for or used in operations under this agreement. Such taxes shall be initially paid by Unit Operator and charged to the joint account for payment by the parties who own the taxed property.

12. INSURANCE AND SETTLEMENTS: Unit Operator shall carry insurance in the following amounts to cover its operations pursuant to the terms of this agreement:

(a) Workmen's Compensation and Employers' Liability Insurance, meeting the requirements of the State of New Mexico;

(b) Comprehensive General Public Liability Insurance with limits of not less than One Hundred Fifty Thousand (\$150,000) Dollars for any one person injured in any one accident, and not less than Three Hundred Thousand (\$300,000) Dollars for more than one person injured in any one accident; and not less than One Hundred Thousand (\$100,000) Dollars for property damage per accident, with the exception of the first Five Thousand (\$5,000) Dollars of loss which is self-insured.

All premiums paid for insurance carried by Unit Operator as herein provided shall be charged to the joint account as operating expenses and shall be paid by the

parties hereto in the same manner as other operating expenses are to be paid. Any property damage loss not to exceed Five Thousand (\$5,000) Dollars for any single accident shall likewise be charged to the joint account as operating expenses and shall be paid by the parties hereto in the same manner as other operating expenses are to be paid; provided, however, that Unit Operator may settle any single damage claim not involving an expenditure in excess of One Thousand (\$1,000) Dollars when such settlement is a complete settlement and when the complete release of all Working Interest Owners is obtained. All settlements involving an expenditure in excess of One Thousand (\$1,000) Dollars must be approved by the Working Interest Owners.

13. INITIAL TEST WELL: Unit Operator is hereby authorized to drill the test well provided for in Section 9 of the Unit Agreement, at a location in the ~~NE/4 Section 2~~ <sup>SE/4 Section 1</sup>, T-22-S, R-25-E, N.M.P.M., or the SW/4 Section 6, T-22-S, R-26-E, N.M.P.M., and in accordance with all applicable governmental rules and regulations. Said well shall be commenced by Unit Operator on or before a date thirty days after the Unit Agreement has been finally approved by the Director, United States Geological Survey, the Land Commissioner of the State of New Mexico, and the New Mexico Oil Conservation Commission. After said well is commenced, Unit Operator shall prosecute the drilling of the well with reasonable diligence in a good and workmanlike manner, to a depth of twelve thousand (12,000') feet, or to a depth at which conclusive fluid is encountered in the Devonian formation, or to a depth at which Unit Operator, with the concurrence of seventy (70%) per cent of the total of all Working Interest Owners, satisfies the Oil and Gas Supervisor of the United States Geological Survey, Roswell, New Mexico, that further drilling of the well would be unwarranted or impracticable, whichever depth is lesser. In the event said well proves to be a dry hole or a well not capable of producing unitized substances in paying quantities, the same shall be plugged and abandoned in accordance with the applicable rules and regulations, and in such event Unit Operator shall make a diligent effort to salvage as much of the casing, equipment and other materials used in the drilling of such well as may prove economically feasible. The Working Interest Owners shall be responsible for the cost of drilling, completing and plugging said well in proportion to their respective participation percentages under this agreement, except as otherwise required by the provisions of Section 33 of this agreement and subject to the provisions of said Section 33, it is agreed that in the event said well is not completed as a producer the Working Interest Owners who have participated in the cost of drilling the same shall own all casing materials and other equipment which may be salvaged in connection therewith in the same proportion that they participated in the

cost of drilling such well.

14. WELL CONTRACTS: All wells drilled in the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Unit Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Unit Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

15. OPERATIONS BY LESS THAN ALL PARTIES: If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 13, or upon the re-working, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities (i.e., in quantities sufficient to pay the cost of producing same) on the Unit Area, any party or parties wishing to drill, re-work, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days except as to re-working, plugging back or drilling deeper, where a drilling rig is on location, the notice shall be given by telegram, and the period shall be limited to forty-eight (48) hours (exclusive of Saturday, Sunday, or Holiday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this Section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be), actually commence work on the proposed operation and complete it with due diligence.



The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "D" bears to the total interest of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, re-worked, deepened or plugged back under the provisions of this Section results in a producer of oil and/or gas in paying quantities (i.e., in quantities sufficient to pay the cost of producing same), the Consenting Parties may complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Unit Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, re-working, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) One hundred (100%) per cent of the such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus one hundred (100%) per cent of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production continuing until each such Non-Consenting Party's relinquished interest shall revert to it under the provisions of this Section, it being agreed that each Non-Consenting Party's share of such cost and equipment will be that interest which would have been chargeable to each Non-Consenting Party had all participated in the well from the beginning of the operation; and

(b) Two hundred (200%) per cent of that portion of the costs and expenses of drilling re-working, deepening or plugging back, testing and completing, after deducting any cash contributions received, and two hundred (200%) per cent of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections) which would have been chargeable to such Non-Consenting Party if all had participated therein.

Before any re-working, plugging back or deeper drilling operation is undertaken on any well which has been completed as a producer the Consenting Party shall first obtain the permission of all parties then owning an interest in said well to carry on such operation and the Consenting Party shall then be entitled to purchase each Non-Consenting Party's share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. The material and equipment shall thereafter, for the purposes of this Section 15, be deemed newly acquired material and equipment of the Consenting Parties and the Consenting Parties shall in a successful operation be entitled to receive one hundred (100%) or two hundred (200%) per cent as the case may be (depending upon whether the material and equipment is before or beyond the wellhead connection), of the entire net salvage value of said material and equipment before the reversion of the interest in the well, the material and equipment thereon to any Non-Consenting Party as hereinafter in this Section 15 provided.

Within sixty (60) days after the completion of any operation under this Section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such cost of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all cost and liabilities incurred in the operation of the well, together with the statement of quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it and from and after such reversion such Non-Consenting Party shall own the same interest in such well, the operating rights

and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned had it participated in the drilling, re-working, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further cost of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure Schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 15, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the completion, re-working, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 13, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, re-worked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

16. FORCED WELLS: In the event Unit Operator is required to drill any well upon the Unit Area by governmental order or demand (including any Federal or State Agency), the cost of drilling and completing said well if a producer, and of plugging and abandoning the well if a dry hole, shall except as otherwise herein provided be borne by all of the Working Interest Owners as though they had all agreed to the drilling of the well pursuant to this agreement. The foregoing shall include, without limitation, an exploratory well or an extension well to determine the limits of any producing formation, or a well to meet any offset well drilled on lands contiguous to the Unit Area which are required to be drilled by such governmental order or demand.

As in the case of any well to be drilled pursuant to this agreement, a vote shall be taken on whether the parties desire to drill any well so required by governmental order or demand. If any party votes against drilling the well, it shall not be drilled at the cost of all Working Interest Owners unless and until the governmental order or demand becomes final, and any party or parties voting against drilling such well shall have the right, at its or their sole cost, risk and expense, to prosecute an appeal from such order or demand. If less than all of the parties consent to the drilling of the well, said well shall be commenced when said order or demand becomes final and shall thereafter be drilled to the required depth at the sole cost, risk and expense of the Consenting Parties in consideration for which the Non-Consenting Parties shall each assign to the Consenting Parties in proportion to their respective interests and without warranty of title all of

Non-Consenting Parties respective interests in and under the drillsite, the area of which shall be the same as the spacing unit to be dedicated to said required well.

17. ABANDONMENT OF PRODUCING WELLS: If some but not all of the affected Working Interest Owners determine to abandon any well or wells completed as a producer but any other party or parties having an interest therein object thereto, then such party or parties not desiring to abandon the same shall, within ten (10) days after receipt of written notice of the proposed abandonment, notify the other parties of their desire to take over and operate said well and shall tender to such other affected Working Interest Owner or Owners a sum equal to the value of the last named parties' proportionate share of the salvable material and equipment in said well or wells determined in accordance with the Accounting Procedure Exhibit "C" attached hereto less the reasonable cost of salvaging the material and equipment and plugging and abandoning the well, and on receipt of said sum the said parties having any interest in the well and wishing to abandon said well shall within twenty-five (25) days thereafter assign without warranty to the other Working Interest Owners, in the proportion that such Owners' respective participation percentages under this agreement bear to the total of such percentages of such Owners, the rights of the abandoning parties in the well and well property as to the producing formation only and any interest they have in the land on which said well is situated, and in the leasehold estate in a tract surrounding said well of an area equal to that prescribed by the applicable spacing rule of State or Federal authority, but if there is no such established rule, then said assignment shall cover the working interest and leasehold estate in the producing formation only in 40 acres surrounding the well, or 160 acres if a gas well. Said well may thereafter be operated by the Unit Operator for the separate account of the Working Interest Owners retaining interests in the well; however, nothing done pursuant to this Section shall otherwise at any time affect the participation percentages of the parties under this agreement. Proper bills of sale and division orders shall be executed by the assigning parties to accomplish the purposes hereof.

18. RENTALS AND SHUT-IN WELL PAYMENTS: The Working Interest Owners in each tract shall pay all rentals, and shut-in well payments which may become due under the lease thereon and shall, at least ten (10) days prior to the due date thereof, notify the Unit Operator of such payment. Evidence of such payment shall be submitted to Unit Operator promptly after payment is made. If the Working Interest Owners in any tract determine not to pay any such rental or shut-in well payment, they shall notify Unit Operator at least sixty (60) days before the due date and they shall, upon request, thereupon assign to all other Working Interest Owners (in the proportion that such owners' respective

participation percentages under this agreement bear to the total of such percentages of such owners) all of their right, title and interest under said lease; provided, however, all such assignments shall be subject to all obligations with respect to reassignments, if any, of the parties making such assignments theretofore created in favor of parties who are not parties to this agreement. As of the effective date of each such assignment, the participation percentages of the parties under this agreement shall be revised to reflect the change in working interest ownership on an acreage basis. In the event of failure of any Working Interest Owner to make proper payment of any delay rental or shut-in well payment through mistake or oversight where such rental or payment is required to continue the lease in force, there shall be no money liability on the part of the party failing to pay such rental or payment, but such party shall make a bona fide effort to secure a new lease covering the same interest and commit such lease to the Unit Agreement and this agreement, and in the event of failure to secure a new lease within a reasonable time, the participation percentages of the parties hereto shall be revised to reflect the change in working interest ownership on an acreage basis and the party failing to pay any such rental or shut-in well payment shall not be credited with the ownership of any lease on which rental or payment was required but was not paid. In the event of loss of title to a lease for failure to pay rental, all loss occasioned thereby shall be that of the Working Interest Owners who should have paid the same.

If any well is completed as a gas well capable of producing in paying quantities, but is shut-in, Unit Operator will use its best efforts in good faith to immediately notify all Working Interest Owners of the status of such well; provided, however, Unit Operator will suffer no liability because of failure through mistake, inadvertance or oversight so to notify any other Working Interest Owner.

19. DISPOSAL OF PRODUCTION: Each of the parties hereto shall own and, at its own expense, shall take in kind and separately dispose of its proportionate part of all the unitized substances produced and saved from the lease acreage covered hereby, exclusive of the production that the Unit Operator may use in developing and producing operations and in preparing and treating oil for market purposes and of production unavoidably lost; provided, that each party shall pay or secure the payment of the royalty interests payable by or chargeable to such party under the provisions of this agreement. At such time or times as a Working Interest Owner shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, Unit Operator shall have the authority, revocable by Working Interest Owner at will, to sell all or part of such production to others at the same price which Unit Operator receives for its own portion of the production,

or to purchase same for its own account. Any such purchase by Unit Operator shall be for a price at not less than the prevailing market price in the area. All such sales or purchases by Unit Operator of Working Interest Owner's production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other Working Interest Owners' share of gas production without first giving such Working Interest Owner sixty (60) days notice of such intended sale. This Agreement shall not be construed to mean that any party or parties are obligated to represent any other party or parties hereto before the Federal Power Commission.

20. EXAMINATION AND LOSS OF TITLE:

(a) Title Examination: There shall be no examination of title to leases, or to oil and gas interests, except that title to the drilling unit on which the initial test well is to be drilled in accordance with Section 13 shall be examined by a reputable attorney, using any available title opinion previously prepared by a reputable attorney, such abstracts of title as the examining attorney deems necessary, and any title papers in possession of the Working Interest Owner committing the land on which the drillsite is located. A copy of the examining attorney's opinion shall be sent to each party and, also, each party shall be given a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy any title requirements shall be made and the cost of any curative work and any necessary title examination shall be charged to the joint account.

If title to the proposed drillsite or the lease is not acceptable for a material reason, and all the parties do not accept the title, the parties shall by vote select a new drillsite for the initial test well, subject to approval of the supervisor, United States Geological Survey, Roswell, New Mexico; provided, if the parties are unable to select another drillsite, such drillsite may be selected by said Supervisor at the request of any party hereto. When a new drillsite is selected, title to the oil and gas lease covering it and to the fee title of the lessor shall be examined, and title shall be accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the oil and gas lease covering the second choice drillsite is not accepted, other drillsites shall be successively selected and title examined as in the case of the first drillsite until a drillsite is chosen to which title is accepted.

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the drilling unit has been examined by an attorney, and (2) the title has been accepted by all of the parties who are to participate in the drilling of the well.

The Working Interest Owner committing the land on which such drilling unit is located shall furnish such abstracts of title thereon as are in such party's possession, with any title opinion and other title papers in such party's possession. Any further title examination, curative work or abstracts shall be at the expense of parties who are to participate in the drilling of the well.

(b) Failure of Title: Should any oil and gas lease, or interest therein be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

(1) The party whose title or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and

(2) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but as of the time it is determined finally that title failure has occurred the interests of the parties shall be revised to reflect the change in working interest ownership and the party whose title or interest is lost by the title failure will not be credited with ownership of that to which title is lost; and

(3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit Area are increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating Costs attributable thereto) until it has been reimbursed for any unrecovered costs paid by it in connection with such well; and

(4) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and

(5) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the parties in the same proportions in which they shared in such prior production. Each party whose title fails shall hold other parties harmless from loss resulting from payment of proceeds of production to the losing party.

(6) The expiration of any lease because of the failure of the parties to extend same, in accordance with the provisions thereof, beyond its primary term shall not

be considered as a loss or failure of title within the meaning of this Article 20. Any loss of a lease because of its expiration under its own terms at or after the expiration of its primary term shall be a common loss of the parties. Likewise, where all of the parties consent to a surrender of a lease (whether during or after its primary term) such loss shall be a common loss of the parties. "Primary term", as used herein, shall mean the term a lease may be held by paying rentals or by other means in absence of production.

21. PREFERENTIAL RIGHT TO PURCHASE AND MAINTENANCE OF UNIT OWNERSHIP: Should any party desire to sell all or any part of its interests under this contract, or its rights and interest in the Unit Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interest, or to dispose of its interests by merger, reorganization, consolidation, or sale of all its assets or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

Should a sale be made by Unit Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than one hundred twenty (120) days after the sale of its rights and interests has been completed.

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interest covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make any other disposition of its interest in the leases embraced within the Unit Area and in wells, equipment and production unless such disposition covers either:



(a) The entire interest of the party in all leases and equipment and production; or

(b) An equal undivided interest in all leases and equipment and production in the Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

If at any time the interest of any party is divided among and owned by four or more co-owners, Unit Operator may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

22. COVENANTS RUNNING WITH THE LAND: This agreement shall be deemed a covenant running with the leases and the lands subject hereto and shall be binding upon and inure to the benefit of the heirs, personal representatives, successors and assigns of the parties respectively.

23. SUBSEQUENT JOINDER: Prior to commencement of operations under the Unit Agreement, all owners of working interests in the Unit Area who have not joined in the Unit Agreement shall be privileged to join in this agreement by subscribing to the Unit Agreement and this agreement. After commencement of operations under the Unit Agreement, however, subsequent joinder in the Unit Agreement and in this agreement by any party owning a working interest in the Unit Area shall be on such reasonable terms and conditions as the parties who are then committed to this agreement may require in view of the circumstances existing at the time such subsequent joinder is sought.

24. SURRENDER OR TERMINATION OF INTERESTS: No lease committed to the Unit Agreement shall be surrendered in whole or in part, unless the parties hereto mutually consent thereto. Should any party at any time desire to surrender any lease committed to the Unit Agreement insofar as it applies to the lands covered by said Unit Agreement and the other parties should not agree or consent to such surrender, the party desiring so to surrender shall assign, without express or implied warranty of title, subject to the approval of the Director of the Bureau of Land Management, Department of the Interior or

the Commissioner of Public Lands as the case may be, if Federal or State lands are involved, all of such party's interest in such lease to the other parties hereto in proportion to the participation percentages of such parties under this agreement. If all of the parties are not willing to accept the assignment of such interest, the assignment shall be made to those willing to accept such interest in the proportions that their respective participation percentages under this agreement bear to the aggregate of such percentages of such parties. Such assignment shall be free and clear of all liens and encumbrances and upon delivery thereof the assigning party shall be relieved of all further obligations with respect to the lease or leases so assigned, but such assignment shall not relieve the assigning party of any obligation or liability approved, accrued or incurred with respect to such lease or leases or the interest referable thereto prior to the assignment thereof.

If any party hereto so desires, it may withdraw from this agreement by conveying, assigning and transferring, without warranty, either express or implied, to the other parties hereto who do not desire to withdraw, all of its right, title and interest in and under the leases included in the Unit Area, together with the withdrawing party's interest in all wells, casing, material, equipment, fixtures and other personal property acquired for or used in operations under this agreement, but such conveyance or assignment shall not relieve said party from any obligation or liability in connection with a drilling or re-working operation theretofore approved or from any obligation or liability accrued or incurred prior to the date of such assignment. The interest so conveyed and assigned shall be held and owned by the Assignees in proportion to their participation percentages under this agreement, and thereupon the withdrawing party shall be relieved from all obligations and liabilities thereafter to accrue under this agreement except as above provided and the right of such party to any benefits subsequently accruing hereunder shall cease; but Assignees shall pay Assignor for its interest in all casing, material, equipment, fixtures and other personal property assigned to them at the salvage value thereof computed in accordance with the Accounting Procedure, Exhibit "C", hereto attached. If all of the parties are not willing to accept the assignment from the withdrawing party, the assignment shall be made to those parties willing to accept such assignment in the proportions that their respective participation percentages under this agreement bear to the aggregate of such percentages of such parties.

25. FAIR EMPLOYMENT: In connection with the performance of work under this agreement, the Unit Operator shall not discriminate against any employee or applicant for employment because of race, religion, color or national origin. The aforesaid provision

shall include, but not be limited to, the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising, layoff, or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the non-discrimination clause.

The Unit Operator agrees to insert the foregoing provisions in all sub-contracts hereunder, except sub-contracts for standard commercial supplies or raw materials.

26. NOTICES: Except as herein otherwise expressly provided, all notices, reports or other communications required or permitted hereunder shall be deemed to have been properly given or delivered when sent by registered mail or telegraph with all postage or charges fully prepaid, and addressed to the parties hereto, at the addresses set opposite their respective names, in Exhibit "D" hereof or at such other address as may be thereafter furnished to Unit Operator in writing by the respective party. The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States Post Office, addressed as above provided.

27. RELATION OF PARTIES: The rights, duties, obligations and liabilities of the parties hereto under this agreement and the Unit Agreement shall be several and not joint or collective, it being the express purpose and intention of the parties hereto that nothing contained in this agreement or the Unit Agreement or any operation under either agreement shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust, or any legal entity for any purpose, or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations as set out in this agreement and in the Unit Agreement.

28. INTERNAL REVENUE CODE ELECTION: While each of the parties hereto recognizes and intends that its rights and liabilities under this agreement and the Unit Agreement are several and not joint or collective, if, for income tax purposes, the parties should be regarded as partners or joint venturers, or if this agreement, the Unit Agreement, or any operations carried on under either agreement be treated as a partnership for income tax purposes, each and all of the parties hereto do hereby fully and finally elect to exclude themselves, this agreement, the Unit Agreement and all such operations from the application of all of Subchapter K of Chapter 1, of Subtitle A, of the Internal Revenue Code of 1954 as provided in Section 761(a) thereof. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby.

If any present or future income tax laws of the State in which the property covered by this agreement is located, or any future income tax laws of the United States, contain, or shall hereafter contain, any other provisions under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election with the same purpose and effect as the election made above and each party agrees to take such action as may be necessary to make such election as may be permitted by such laws.

29. FORCE MAJEURE: In the event any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this contract other than the obligation to make payments of amounts due hereunder, it is agreed that upon such party's giving notice and reasonably full particulars of force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, then the obligations of the party giving the notice, so far as they are affected by force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure shall, so far as possible, be remedied with all reasonable dispatch. The term "force majeure" as employed herein shall mean delay or loss resulting from fire, flood, action of the elements, strikes or other labor difficulties, acts or orders of civil or military authorities, restrictions or restraints imposed by law or ordinance, or by order or regulation of public authority, whether Federal, State or local, inability to procure necessary materials or labor in the open market and on usual and lawful terms, or any other cause reasonably beyond the control of the party claiming suspension.

The settlement of strikes and lockouts shall be entirely within the discretion of the party having the difficulty and the above mentioned requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes and lockouts by acceding to the demands of opposing party when such course is inadvisable in the discretion of the party having the difficulty.

30. ASSIGNMENTS OF PARTIAL INTERESTS: Under various provisions of this agreement, a party hereto is permitted, or may be obligated, to assign to another party or parties hereto, all or a part of such party's interest in its oil and gas leases subject to this agreement. In the event assignment of record title is not permitted under the rules and regulations of the Bureau of Land Management or of the Commissioner of Public Lands of the State of New Mexico, as the case may be, then the interest to be assigned shall be conveyed by appropriate operating agreements or by any other valid instrument that will carry out the intention of such provision or provisions or in case of a State

lease or leases where undivided interests are to be assigned, the same may be assigned to the Unit Operator to be held in trust for the parties entitled to participation therein in proportion to their respective interests.

31. PROVISIONS CONFORMED WITH LAWS AND REGULATIONS: All of the provisions of this agreement are hereby expressly made subject to all applicable Federal or State laws, orders, rules and regulations, and in the event this contract or any provision hereof is found to be inconsistent with or contrary to any such law, order, rule or regulation, the latter shall be deemed to control and this contract shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

32. EFFECTIVE DATE AND TERM: This agreement shall become effective as of the effective date of the Unit Agreement and shall remain in full force and effect during the term of said Unit Agreement and any and all extensions or renewals thereof, and, in the event of the termination of the Unit Agreement for any reason as to all or any part of the land now or hereafter included in the Unit Area, this agreement shall continue in full force and effect with respect to any land as to which the Unit Agreement terminates which is included in any drilling unit or proration unit for any unabandoned well which has been drilled or commenced pursuant to this agreement. After such termination the royalties reserved in the lease covering any such drilling or proration unit and the overriding royalties specified in Exhibit "B" which are applicable to production from such unit shall be paid and satisfied from the actual production from such unit by the owner of the lease covering such unit, and the remaining production therefrom and the cost of all subsequent operations thereon shall be allocated among the parties to this agreement in accordance with the other provisions of this agreement; such remaining production being in lieu of any other working interest production from or allocated to such unit to which any working interest owner or owners might otherwise be entitled under this agreement. Any additional overriding royalties or burdens on production from such drilling or proration unit shall be paid and satisfied by the owner of the lease covering such unit and such owner shall hold the other parties harmless from any such additional overriding royalties and burdens on production. The rights and interests of the parties hereto in such drilling or proration units, the wells thereon and their participation in the production therefrom and in the cost of operations thereon, shall be governed by the provisions hereof and this agreement with respect to each such well and its drilling unit or proration unit shall remain in full force and effect so long as any well thereon is being drilled or re-worked or is capable of producing oil or gas in paying quantities and until same is plugged and abandoned and the accounts of all parties

hereto are settled.

Notwithstanding the foregoing and in the absence of unanimous consent of the Working Interest Owners to further extension, it is understood and agreed that in the event this agreement and the Unit Agreement have not become effective on or before July 1, 1961, then both this agreement and said Unit Agreement and all rights and obligations thereunder shall become absolutely null and void and of no further force or effect, and all Working Interest Owners hereby agree to take all action reasonably necessary to effect such termination.

No termination of the Unit Agreement as to any land (except as a result of loss or failure of title or loss of a lease through failure to pay rental) shall cause a revision of the participation percentages of the parties under this agreement.

33. SPECIAL AGREEMENTS CONCERNING DRILLING AND COMPLETING THE TEST WELL:

A. Completion of Test Well: When the well has been drilled to the depth required by Section 13 of this agreement, Unit Operator shall promptly give notice by telegram of that fact to all parties to this agreement stating whether it recommends an attempt be made to complete the well as a producer of oil or gas, or to plug and abandon same. Within forty-eight (48) hours (exclusive of Saturday, Sunday or Holiday) after such notice has been given by Unit Operator, each party to this agreement, except Northern Natural Gas Producing Company and W. G. Ross (hereinafter in this Section 33 referred to as "Carried Parties"), shall notify Unit Operator whether such party elects to participate in the cost of attempting to complete the well, including the cost of the production string of casing, the running and cementing thereof, and all costs and expenses thereafter incurred on or in connection with the well. Any party who does not give Unit Operator notice of such election within said forty-eight (48) hour period shall be presumed to have elected not to participate in the completion of the well. If one or more, but less than all, of the parties, other than the Carried Parties, elect to attempt completion of the well, Unit Operator shall attempt such completion at the cost of the party or parties who have elected to make such attempt and as of the time of such election the provisions of Section 15 of this agreement shall become applicable to the well, to operations subsequently conducted on or in connection with the well, to the cost and expense of such operations and to the production subsequently obtained from the well, except as to the interest of the Carried Parties. If all parties other than Carried Parties elect to attempt to complete the well or to plug and abandon same, Unit Operator shall proceed with such operation. In such event, all costs and expenses incurred for or in connection with the well after such election shall be borne and the production from the well shall be allocated just as though all parties had participated fully in drilling the well under this agreement, except, that

those costs and expenses chargeable against the interest of the Carried Parties shall be borne and paid by the "Acquiring Parties" (which parties hereinafter in this Section 33 are identified).

B. Rights to be Earned: It is understood and agreed between the respective parties named in this Section 33 that, subject only to the provisions of this Section, Gulf Oil Corporation, The Pure Oil Company, The Ohio Oil Company, Honolulu Oil Corporation, Texaco Seaboard Inc., Tidewater Oil Company, Texaco Inc., and E. A. Hanson (in this Section 33 being referred to as "Acquiring Parties"), shall have and are hereby granted the right to acquire the following described leasehold interests from the respective parties designated below:

- (a) From Northern Natural Gas Producing Company an undivided one-half (1/2) interest in and to the oil and gas leasehold estates identified as follows:
  - (1) Federal Lease LC 064548-A insofar only as it covers Lots 1 and 2, S/2 NE/4, N/2 SE/4 and SW/4 SE/4 of Section 3, T. 22 S., R. 25 E., N.M.P.M. (being designated Tract 12 on Exhibit "B" to this agreement), subject to any overriding royalties or production payments shown on Exhibit "B" to this agreement which are to be borne jointly by Northern Natural and by the Acquiring Parties as their interests in the Tract may then appear.
  - (2) Federal Lease LC 064528-B insofar only as it covers the W/2 NE/4 of Section 11, T. 22 S., R. 25 E., N.M.P.M. (being designated as Tract 13 on Exhibit "B" to this agreement), subject to any overriding royalties or production payments shown on Exhibit "B" to this agreement which are to be borne jointly by Northern Natural and by the Acquiring Parties as their interests in the Tract may then appear.
  - (3) Federal Lease LC 064492-A insofar only as it covers the SW/4 SW/4 of Section 17, T. 22 S., R. 26 E., N.M.P.M. (being designated as Tract 17-A on Exhibit "B" to this agreement), subject to any overriding royalties or production payments shown on Exhibit "B" to this agreement which are to be borne jointly by Northern Natural and by the Acquiring Parties as their interests in the Tract may then appear.
  - (4) Lease dated December 27, 1952, executed by Frank H. Jones and Maggie Jones, recorded in Book 83, Page 301 of the records of Eddy County, insofar only as it covers the NE/4 NE/4 of Section 11, T. 22 S., R. 25 E., N.M.P.M. (being designated Tract 39 on Exhibit "B" to this agreement), subject to any overriding royalties or production payments shown on Exhibit "B" to this agreement which are to be borne jointly by Northern Natural and by the Acquiring Parties as their interests in the Tract may then appear.
- (b) From W. G. Ross an undivided one-half (1/2) interest in and to the oil and gas leasehold estates identified as follows:
  - (1) Federal Lease NM 02500-A insofar only as it covers the SE/4 SE/4 of Section 1, T. 22 S., R. 25 E., N.M.P.M. (being designated as Tract 11-A on Exhibit "B" to this agreement), subject to any overriding royalties or production payments shown on Exhibit "B" to this agreement which are to be borne jointly by W. G. Ross and by the Acquiring Parties as their interests in the Tract may then appear.

The Acquiring Parties shall bear and pay all costs and expenses which as a result of the Carried Parties respective interests in the leases identified above would otherwise be chargeable to said parties under this agreement in connection with drilling the test well to the depth required by Section 13 of this agreement and completing said well if possible or practical into the tanks, or plugging and abandoning said well.

When the test well has been drilled to the depth required by Section 13, and completed into the tanks, or plugged and abandoned, the Carried Parties shall promptly execute and deliver to the Acquiring Parties a good and valid assignment, without warranty of title, vesting in said Acquiring Parties, the legal title to the interests above provided for in the respective leasehold estates identified above. Unless the Acquiring Parties fail to drill and complete the well in compliance with the provisions of Section 13 of this agreement, the Acquiring Parties and the Carried Parties shall at all times and for all purposes be regarded as the owners of the interest which they will respectively hold after the assignments to the Acquiring Parties pursuant to this Section 33, except the cost of drilling, completing or plugging and abandoning the well shall be borne as specifically required by the foregoing provisions of this Section 33.

The assignments above provided for shall not be precluded by any of the provisions of this agreement or the Unit Agreement and all parties agree that such assignments may be made regardless of any provision to the contrary, but the assigned interest shall be and remain subject to this agreement and the Unit Agreement.

The provisions of this Section supersede and shall be in lieu of all contracts, agreements, and representations heretofore made by or between any of the parties named in this Section regarding any land or interest within the Unit Area.

34. EXHIBITS: Exhibit "A" (map of the Unit Area) and Exhibit "B" (schedule of ownership of oil and gas interests in the Unit Area) which are attached to said Unit Agreement, are hereby confirmed and made a part of this agreement as exhibits hereto. Exhibit "C" (Accounting Procedure) and Exhibit "D" (names and addresses of Working Interest Owners and their respective interests in the proceeds of production) are attached hereto and made a part hereof by reference.

35. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by the other parties hereto, and the same shall be binding upon all those parties who have executed such a counterpart, regardless of whether the same shall have been executed by all of the parties owning oil and gas leasehold interests within the Unit Area, and such counterpart shall have the same force and effect as if all parties signing such counterparts had signed the same document; or this agreement may be ratified with like force and effect by a separate instrument in writing specifically referring hereto.

IN WITNESS WHEREOF this Agreement was executed by the undersigned parties hereto on the respective dates hereinafter shown with the effective date to be the day



and year first hereinabove written or as otherwise controlled by Section 32 hereof; provided, however, that each party executing this Agreement expressly agrees to remain bound to any authority for expenditure or separate agreement concerning the initial test well which may have been executed or entered into previous to said effective date to the extent that authorized costs incurred prior to the effective date hereof shall be deemed to have accrued under the terms and provisions of this Operating Agreement.

ATTEST:

*V. C. Civan*  
Assistant Secretary

Date: *January 26, 1961*

ATTEST:

\_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

*Merna Benson*  
Assistant Secretary

Date: \_\_\_\_\_

ATTEST:

*[Signature]*  
[Illegible Title]

Date: *1-31-61*

GULF OIL CORPORATION

BY: *W. A. Shellshear*  
Its Attorney in Fact

UNION OIL COMPANY OF CALIFORNIA

BY: \_\_\_\_\_  
Its \_\_\_\_\_

SUNRAY MID-CONTINENT OIL COMPANY

BY: *Horstaden*  
Its Vice President *ABN/aw*

PHILLIPS PETROLEUM COMPANY

BY: *[Signature]* *DK*  
Its VICE PRESIDENT

ATTEST:

Date: FEB 2 1961

ATTEST:

*P. Proctor*  
Assistant Secretary

Date: January 31, 1961

ATTEST:

\_\_\_\_\_  
Assistant Secretary

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Assistant Secretary

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

*J. Lawrence*  
Asst. Sec.

Date: JAN 30 1961

THE PURE OIL COMPANY

BY: *James L. Morris*  
Its Manager, Southern Producing Division

APPROVED	
TRADE	<i>B. H. Rubin</i>
FORM	<i>B. H.</i>
DESCRIPTION	<i>B</i>

*B. H.* SKELLY OIL COMPANY

BY: *Chas. A. Newman*  
Its SENIOR VICE PRESIDENT

Approved *as to*  
*[Signature]*

THE OHIO OIL COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

HONOLULU OIL CORPORATION

BY: \_\_\_\_\_  
Its \_\_\_\_\_

SUN OIL COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

NORTHERN NATURAL GAS PRODUCING COMPANY

BY: *John M. Hawley*  
Its Vice President

THE SUPERIOR OIL COMPANY

BY: \_\_\_\_\_

AND \_\_\_\_\_  
Assistant Secretary

SINCLAIR OIL & GAS COMPANY

ATTEST:

*R. J. Smith*  
Assistant Secretary

Date: FEB 6 1961

BY: *[Signature]*  
Its Vice-President

APPROVED	
TRADE	<i>R. J.</i>
FORM	<i>R. J.</i>

ATTEST:

\_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Assistant Secretary

Date: \_\_\_\_\_

ATTEST:

*R. E. Edelman*  
Assistant Secretary - R. E. Edelman

Date: 2-2-61

ATTEST:

\_\_\_\_\_  
Assistant Secretary

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Assistant Secretary

Date: \_\_\_\_\_

THE PURE OIL COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

SKELLY OIL COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

THE OHIO OIL COMPANY

BY: *J. H. West* AFFIRMED AS  
TO FORM  
Its Vice President J. H. West

HONOLULU OIL CORPORATION

BY: \_\_\_\_\_  
Its \_\_\_\_\_

SUN OIL COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

NORTHERN NATURAL GAS PRODUCING COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

THE SUPERIOR OIL COMPANY

BY: \_\_\_\_\_

AND \_\_\_\_\_  
Assistant Secretary

SINCLAIR OIL & GAS COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Assistant Secretary

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Assistant Secretary

Date: \_\_\_\_\_

ATTEST:

  
Assistant Secretary

Date: February 2, 1961

ATTEST:

\_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Assistant Secretary

Date: \_\_\_\_\_

THE PURE OIL COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

SKELLY OIL COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

THE OHIO OIL COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

HONOLULU OIL CORPORATION

BY:   
Its EXECUTIVE VICE PRESIDENT  
EXPLORATION, DEVELOPMENT AND PRODUCTION

SUN OIL COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

NORTHERN NATURAL GAS PRODUCING COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

THE SUPERIOR OIL COMPANY

BY: \_\_\_\_\_

AND \_\_\_\_\_  
Assistant Secretary

SINCLAIR OIL & GAS COMPANY

BY: \_\_\_\_\_  
Its \_\_\_\_\_

ATTEST:

TEXACO SEABOARD INC.

Date: February 6, 1961

BY: L. Sleeper  
Its ATTORNEY-IN-FACT  
Approved as to  
Terms MS  
Form MS  
Acctg. MS

ATTEST:

TEXACO INC.

Date: February 6, 1961

BY: L. Sleeper  
Its ATTORNEY-IN-FACT

ATTEST:

TIDEWATER OIL COMPANY

J. J. Zimmerman  
Assistant Secretary

BY: E. B. Miller  
Its VICE PRESIDENT

Date: JAN 31 1961

ATTEST:

TENNECO CORPORATION

Assistant Secretary

BY: \_\_\_\_\_  
Its \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

CARPER DRILLING COMPANY, INC.

Assistant Secretary

BY: \_\_\_\_\_  
Its \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

GEORGE E. CONLEY

Date: 2-3-61

CONLEY  
Wm G. Ross  
WM.G. ROSS

Date: January 26, 1961

Lee K. Ross  
LEE K. ROSS

E. A. Hanson  
E. A. HANSON

Beulah Irene Hanson  
HANSON

ATTEST:

SHELL OIL COMPANY

Date: \_\_\_\_\_

BY: \_\_\_\_\_  
Its \_\_\_\_\_

ATTEST:

BY: \_\_\_\_\_  
Its \_\_\_\_\_

Date: \_\_\_\_\_

\* \* \* \* \*

STATE OF NEW MEXICO     )  
                                      )  
COUNTY OF CHAVES        )

The foregoing instrument was acknowledged before me this 26<sup>th</sup> day of January, 1961, by W. A. SHELLSHEAR, Attorney-in-Fact for GULF OIL CORPORATION, a Pennsylvania corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
My Commission Expires August 15, 1962

Eva Marie Cooper  
Notary Public

STATE OF                        )  
                                      )  
COUNTY OF                    )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of UNION OIL COMPANY OF CALIFORNIA, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

Notary Public

STATE OF Oklahoma     )  
                                      )  
COUNTY OF Tulsa        )

The foregoing instrument was acknowledged before me this 31 day of January, 1961, by H. O. Barber, Vice President of SUNRAY MID-CONTINENT OIL COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Kathryn Holland, Notary Public  
In and for the State of Oklahoma  
My Commission Expires  
February 22, 1964

Kathryn Holland  
Notary Public

STATE OF Oklahoma     )  
                                      )  
COUNTY OF Washington    )

The foregoing instrument was acknowledged before me this 31<sup>st</sup> day of January, 1961, by C. D. Stark, Vice President of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
1-21-62

Marilyn Leisner  
Notary Public

STATE OF TEXAS            )  
                                      )  
COUNTY OF HARRIS        )

The foregoing instrument was acknowledged before me this 2nd day of February, 1961, by James L. Morris, Manager of the Southern Producing Division of The Pure Oil Company, an Ohio corporation, on behalf of said corporation.

My commission expires:  
June 1, 1961

Jo Ann Brewer  
Notary Public

STATE OF Oklahoma )  
 )  
COUNTY OF Sevier )

The foregoing instrument was acknowledged before me this        day of January, 1961, by A. L. CASHMAN, SENIOR VICE PRESIDENT of SKELLY OIL COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission Expires:         
Notary Public Tulsa County Oklahoma  
~~My Commission Expires January 21, 1965~~

        
Notary Public

STATE OF        )  
 )  
COUNTY OF        )

The foregoing instrument was acknowledged before me this        day of       , 1961, by        of THE OHIO OIL COMPANY, a        corporation, on behalf of said corporation.

My Commission Expires:       

        
Notary Public

STATE OF        )  
 )  
COUNTY OF        )

The foregoing instrument was acknowledged before me this        day of       , 1961, by        of HONOLULU OIL CORPORATION, a        corporation, on behalf of said corporation.

My Commission Expires:       

        
Notary Public

STATE OF        )  
 )  
COUNTY OF        )

The foregoing instrument was acknowledged before me this        day of       , 1961, by        of SUN OIL COMPANY, a        corporation, on behalf of said corporation.

My Commission Expires:       

        
Notary Public

STATE OF N. Dakota )  
 )  
COUNTY OF Douglas )

The foregoing instrument was acknowledged before me this 30<sup>th</sup> day of January, 1961, by John M. Henley, Vice-President of NORTHERN NATURAL GAS PRODUCING COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission Expires:         
OCT 28 1965

Vincent J. Haefler  
Notary Public

STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of SKELLY OIL COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF Ohio )  
 )  
COUNTY OF Hancock )

The foregoing instrument was acknowledged before me this 2nd day of February, 1961, by H. H. West, Vice President of THE OHIO OIL COMPANY, a Ohio corporation, on behalf of said corporation.

My Commission Expires: E. L. SIMON  
NOTARY PUBLIC, HANCOCK COUNTY, OHIO  
MY COMMISSION EXPIRES JULY 27, 1961 E. L. Simon  
Notary Public

STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of HONOLULU OIL CORPORATION, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of SUN OIL COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of NORTHERN NATURAL GAS PRODUCING COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

Unit Operating Agreement  
Hackberry Hills Unit, T-21 & 22-S, R-25 & 26-E,  
Eddy County, New Mexico



STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, of SKELLY OIL COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, of THE OHIO OIL COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF CALIFORNIA )  
City and )  
COUNTY OF San Francisco )

The foregoing instrument was acknowledged before me this 2<sup>nd</sup> day of February, 1961, by A. S. DONNELLY, EXEC. VICE PRES. of HONOLULU OIL CORPORATION, a Hawaiian corporation, on behalf of said corporation.

My Commission Expires: August 28, 1963

Helen G. Boyle Helen G. Boyle  
Notary Public

STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, of SUN OIL COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, of NORTHERN NATURAL GAS PRODUCING COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of THE SUPERIOR OIL COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF Texas )  
 )  
COUNTY OF Midland )

The foregoing instrument was acknowledged before me this 6<sup>th</sup> day of February, 1961, by R. L. ELSTON, Vice-President of SINCLAIR OIL & GAS COMPANY, a Marine corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

June 1, 1961

Dorothy C. Richardson  
Notary Public

**STATE OF TEXAS** |  
 |  
**COUNTY OF MIDLAND** |

The foregoing instrument was acknowledged before me this 6th day of February 1961, by J. L. Sleeper, Jr., Attorney-in-Fact of TEXACO SEABOARD INC., a Delaware corporation on behalf of said corporation.

My commission expires:  
June 1, 1961

Dorothy J. Driskill  
Dorothy Driskill, Notary Public in and for  
Midland County, Texas.

STATE OF TEXAS |  
 |  
COUNTY OF MIDLAND |

The foregoing instrument was acknowledged before me this 6th day of February 1961, by J. L. Sleeper, Jr., Attorney-in-Fact of TEXACO INC., a Delaware corporation on behalf of said corporation.

My commission expires:  
June 1, 1961

Dorothy J. Driskill  
Dorothy Driskill, Notary Public in and for  
Midland County, Texas

STATE OF TEXAS )  
 )  
COUNTY OF HARRIS )

The foregoing instrument was acknowledged before me this 11<sup>th</sup> day of January, 1961, by E. B. MILLER, JR., VICE PRESIDENT of TIDEWATER OIL COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission Expires:  
JUN 1 1961

Dorothy Elliott  
Notary Public  
DOROTHY ELLIOTT  
Notary Public in and for Harris County, Texas

STATE OF )  
)  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of TENNECO CORPORATION, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF )  
)  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of CARPER DRILLING COMPANY, INC., a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF )  
)  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by GEORGE E. CONLEY and \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF TEXAS )  
)  
COUNTY OF MIDLAND )

The foregoing instrument was acknowledged before me this 3<sup>rd</sup> day of February, 1961, by Wm. G. ROSS and Lee R. Ross, his wife.

My Commission Expires: \_\_\_\_\_

6-1-61

Phyllis Gunnestad  
Notary Public

STATE OF Nebraska )  
)  
COUNTY OF Lincoln )

The foregoing instrument was acknowledged before me this 27 day of January, 1961, by E. A. HANSON and \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Emerson B. Spahr  
Notary Public

STATE OF )  
)  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of SHELL OIL COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF )  
 )  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1961, by \_\_\_\_\_, \_\_\_\_\_ of HUMBLE OIL & REFINING COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
\_\_\_\_\_ Notary Public

## EXHIBIT " C "

PASO-T1955-2

Attached to and made a part of Hackberry Hills Unit Operating Agreement  
between Gulf Oil Corporation, as Operator, and Northern Natural  
Gas Producing Co., Phillips Petroleum Company, Honolulu Oil  
Corporation, et al, as Non-Operators

# ACCOUNTING PROCEDURE

## (UNIT AND JOINT LEASE OPERATIONS)

### I. GENERAL PROVISIONS

#### 1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

#### 2. Statements and Billings

*in triplicate*

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of cost and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total cost and charges as set forth under Subparagraph "A" below:

A. Statement in detail of all charges and credits to the joint account.

B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.

C. Statements as follows:

(1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;

(2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges and credits.

#### 3. Payments by Non-Operator

*thirty (30)*

Each party shall pay its proportion of all such bills within *thirty (30)* ~~fifty (50)~~ days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

#### 4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

#### 5. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

### II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

#### 1. Rentals and Royalties

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

#### 2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

#### 3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

#### 4. Material

Material, equipment, and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

#### 5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

- A. Outside Services:  
The cost of contract services and utilities procured from outside sources.
- B. Use of Operator's Equipment and Facilities:  
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

- All cost and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.
- A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interest hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.
- B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

- A. Premium paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
- ~~B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.~~ See below

11. District and Camp Expense (Field Supervision and Camp Expense)

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's District office located at or near Roswell, New Mexico (or a comparable office if location changed), and necessary suboffice (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on ~~some equitable basis consistent with Operator's accounting practice~~ a well basis with a drilling well considered the equivalent of six producing wells. Wells to be included in this allocation are wells on which administrative overhead will be charged as provided in 12-B below. Provided, however, district expense charges shall in no event exceed \$65.00 (sixty five dollars) per month per producing well averaged over a calendar year, said rate to be adjusted in the same per cent as general wage increases or decreases.

10. B. If the parties hereto or any of them shall insure their respective risks beyond the specific limits of insurance required to be carried by the Operator under the terms of the Agreement, the benefits of such insurance shall inure to the parties procuring and maintaining the same respectively, and the cost of such insurance shall be borne by such parties, respectively, without reimbursement one from the other and without entering into the accounting hereunder.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)			
	Each Well	First Five	Next Five	All Wells Over Ten
\$ 350.00	\$ 60.00	\$ 50.00	\$ 40.00	

- A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. In connection with overhead charges, the status of wells shall be as follows:
- (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
- (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
- (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
- (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
- (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
- (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
- (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
- D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
- E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

### 13. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

None

### 14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

## III. BASIS OF CHARGES TO JOINT ACCOUNT

### 1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator after deduction of all discounts actually received.

### 2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

#### A. New Material (Condition "A")

- (1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

#### B. Used Material (Condition "B" and "C")

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.
- (2) Material which cannot be classified as Condition "B" but which,
  - (a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
  - (b) Is serviceable for original function but substantially not suitable for reconditioning,
 shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

### 3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

### 4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

### 5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator.

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

- B. Automotive equipment at rates commensurate with cost of ownership and operations. Such rates should generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.
- C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

#### IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

##### 1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

##### 2. Division in Kind

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

##### 3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

#### V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

##### 1. New Price Defined

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

##### 2. New Material

New material (Condition "A"), being new material procured for the joint account but never used thereon, at one hundred per cent (100%) of current new price (plus sales tax if any).

##### 3. Good Used Material

Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or
- B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

##### 4. Other Used Material

Used material (Condition "C"), at fifty per cent (50%) of current new price, being used material which:

- A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
- B. Is serviceable for original function but substantially not suitable for reconditioning.

##### 5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

##### 6. Junk

Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

##### 7. Temporarily Used Material (in service 60 days or less)

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, above, such material shall be priced on a basis that will leave a net charge to the joint account ~~consistent with the value of the service rendered.~~

of 10% of price charged if material was charged new and 5% of price charged if material was charged as secondhand.

#### VI. INVENTORIES

##### 1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

##### 2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

##### 3. Special Inventories

Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.



EXHIBIT "D"

NAMES AND ADDRESSES OF WORKING INTEREST OWNERS AND THEIR RESPECTIVE  
INTERESTS IN THE PROCEEDS OF PRODUCTION IN THE HACKBERRY HILLS UNIT AREA,  
EDDY COUNTY, NEW MEXICO

I.

The names and addresses of Working Interest Owners for the purpose of giving any notice provided for in the Unit Agreement or in the Unit Operating Agreement shall be as follows:

Gulf Oil Corporation  
Post Office Box 669  
Roswell, New Mexico

Sunray Mid-Continent Oil Company  
1101 Wilco Building  
Midland, Texas

Phillips Petroleum Company  
Land and Geological Department  
Bartlesville, Oklahoma

The Pure Oil Company  
Post Office Box 729  
Roswell, New Mexico

Skelly Oil Company  
Skelly Building (Telegram)  
Post Office Box 1650 (Mail)  
Tulsa, Oklahoma

The Ohio Oil Company  
Texas Eastern Building (Telegram)  
Post Office Box 3128 (Mail)  
Houston, Texas

Honolulu Oil Corporation  
Post Office Drawer 1391  
Midland, Texas

Northern Natural Gas Producing Company  
400 Union Building  
Midland, Texas

The Superior Oil Company  
Post Office Box 1900  
Midland, Texas

Texaco Inc.  
Texaco Seaboard Inc.  
Post Office Box 3109  
Midland, Texas

Sinclair Oil & Gas Company  
Post Office Box 1470  
Midland, Texas

Tidewater Oil Company  
Post Office Box 1404  
Houston, Texas

Tenneco Corporation  
323 Petroleum Building  
Roswell, New Mexico

E. A. Hanson  
200 West First Street  
Roswell, New Mexico

W. G. Ross  
Post Office Box 1094  
Midland, Texas

In the event of any change of address the Unit Operator upon being notified shall revise this Exhibit "D" and furnish three copies of such revision to all parties.

## II.

The respective interests in the proceeds of production and participation percentages of the Working Interest Owners upon the performance of the Special Agreements Concerning Drilling and Completion of the Test Well as provided in Section 33 B. of the Unit Operating Agreement, and until further revised, shall be as follows:

Gulf Oil Corporation	61.845750 %
The Pure Oil Company	4.917688 %
Samray Mid-Continent Oil Company	4.894550 %
The Ohio Oil Company	4.581974 %
Phillips Petroleum Company	4.310227 %
Skelly Oil Company	4.017275 %
Honolulu Oil Corporation	3.947265 %
The Superior Oil Company	2.293975 %
Sinclair Oil & Gas Company	1.724091 %
Northern Natural Gas Producing Company	1.584296 %
Texaco Seaboard Inc.	1.475306 %
Tidewater Oil Company	1.475306 %
Tenneco Corporation	1.149394 %
Texaco Inc.	.983537 %
E. A. Hanson	.655692 %
W. G. Ross	<u>.143674 %</u>
	100.000000 %

Note: The respective interests of the parties provided above shall constitute only the basic division of 7/8 working interest. Any royalties in excess of 1/8 and all overriding royalties and obligations payable out of production which are either chargeable against production from or chargeable against production allocated to land in the Unit Area shall be paid by the Working Interest Owner whose tract or tracts are affected, and where more than one Working Interest Owner exists in any tract so affected each owner shall pay an amount proportionate to its ownership unless otherwise indicated in the event any co-owner creates additional burdens not set out in Exhibit "B" hereof.